

# SENATE BILL REPORT

## SB 5904

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As of March 26, 2015

**Title:** An act relating to providing a public utilities tax credit for forest derived biomass used to produce energy.

**Brief Description:** Providing a public utilities tax credit for forest derived biomass used to produce energy.

**Sponsors:** Senator Hargrove.

**Brief History:**

**Committee Activity:** Ways & Means: 3/25/15.

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Juliana Roe (786-7438)

**Background:** Washington imposes a business and occupation (B&O) tax on certain business activities including manufacturing, retailing, and wholesaling. A city may also impose a B&O tax which is generally capped at 0.2 percent of gross income.

The public utility tax (PUT) applies to the gross income derived from the operation of public and privately owned utilities. The tax is in lieu of the B&O tax and applies to the general categories of transportation and the supply of energy and water. Public and private entities that transport people or goods for hire are subject to the PUT. The urban transportation classification applies – 0.642 percent – when the origin and destination is either within the same city, extends no more than five miles outside the city, or is between two cities no more than five miles apart. Otherwise, the motor transportation classification applies – 1.926 percent.

The B&O tax credit of \$5 per harvested ton of forest-derived biomass that is sold, transferred, or used for the production of electricity, steam, heat, or biofuel is set to expire June 30, 2015.

**Summary of Bill:** The B&O tax credit of \$5 per harvested ton of forest derived biomass sold, transferred, or used for production of electricity, steam, heat, or biofuel is extended to June 30, 2025. A harvester may apply unused credits against the PUT beginning October 1, 2015. Harvesters must file an annual survey to claim the credit.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

There is a tax preference statement included that provides that if the amount of forest derived biomass collected and utilized to produce energy increases by at least an average annual rate of 10 percent per year, then the Legislature intends to extend the expiration date of the tax preference.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** The bill takes effect on June 30, 2015.

**Staff Summary of Public Testimony:** The forest product industry continues to experience hard times with mill closures being a constant concern. The biomass incentive builds new markets for woody biomass and helps maintain jobs in the woods. Retaining the incentives for biofuel production and distribution helps secure our longstanding investment in home grown and produced biofuels, especially for the biofuels industry. It also lays the groundwork for new production facilities wanting to start production in Washington.

We want to incentivize the use of forest biomass to produce renewable energy and help hit green energy targets. The credit also incentivizes forest thinning which improves forest health and reduces the risk of forest wildfire which would avoid costs to the general fund.

The forest biomass credit was started in 2009. I have been a harvester of forest biomass for about six years. We have found that harvesting and transporting forest biomass about 50 miles is practical without the tax credit. However, we can travel further out with the help of the tax credit where business will be expanding. The extension of this credit would be a great benefit to help fully establish this new business industry. We haul what is called forest slash, which are the residuals left after logging. There is about a truckload of forest slash available left for every acre logged. A truckload of forest slash is 25 tons. That one truckload has the same heat value of about 1400 gallons of diesel. It's a very good benefit-rate relationship. It takes about 100 gallons of diesel to grind and transport a truckload which has a 1400 gallon British thermal unit value. It's a product that is otherwise being wasted through burning, producing CO<sub>2</sub> and smoke, with no added benefit.

This bill contributes to our strategic initiatives of reducing wildfire risk, improving forest health, and promoting renewable energy. It benefits forests, improves public safety, and helps improve the climate.

**Persons Testifying:** PRO: Dan Siemann, Dept. of Natural Resources; Norm Schaaf, Merrill and Ring; Bill Hermann, Hermann Bros; John Ehrenreich, WA Forest Protection Assn.

**Persons Signed in to Testify But Not Testifying:** No one.